

T-2194

BOLT II-PROCESSING PROCEDURES

(DRAFT)

BOLT II (Bond Online Trading) is the accrual based accounting system used to account for investments, excluding the AFM (overnight investment with Treasury). The BOLT system data was used to compile the financial statements pertaining to trust fund investments for the FY-96 audit. Beginning October 01, 1997 only three accounts are being maintained on the BOLT system. Accounts IM6039716 and AK6140011 are maintained for the purpose of deriving the monthly earnings to be distributed. Account JA9030691 is maintained for the purpose of deriving the annual fund valuation.

The portfolio size and composition at October 31, 1997 for the three accounts referred to above based on OMNITRUST report 156 is as follows:

	<u>AK6140011</u>	<u>JA9030691</u>	<u>IM6039716</u>
Total Market Value:	\$11,155,716.25	\$29,109,622.13	\$516,473,555.04
<u>COMPOSITION</u>			
Government Overnighter:	104,146.25	921,246.75	42,582,070.64
Treasury: Notes/Bonds:	11,051,570.00	-----	51,052,298.79
Zero Coupon Securities:	-----	3,436,219.40	44,896,029.14
Agency: Notes/Bonds:	-----	20,809,379.86	272,601,370.63
Mortgage-backed Securities:	-----	3,942,776.12	105,341,785.84
Number of Securities Held			
Excluding Govt Overnighter:	6	24	107
Number MBS Securities:	0	5	56

*All MBS securities were bought at a discount or premium.

Determining the monthly earnings for account IM6039716 and AK6140011 includes calculating: (1) accretion of discounts which is included as income, (2) amortization of premiums which is a charge (deduction) against income, (3) computing the current month coupon interest (net of purchased interest), and (4) computing gain or loss on disposal of securities based on amortized/accreted book values. The above portfolio information is provided in order to convey the volume and complexity of the calculations associated with computing the monthly earnings. Other items to consider include, variable coupon rates, thirteen 44-day delay MBS securities that receive interest two months in arrears, two 30-day delay MBS securities that require pro-rata computation where interest is received 46 days in arrears, MBS securities that capitalize interest monthly, prepayment premiums, and determining when to amortize/accrete premiums/discounts to the call date versus maturity date. In addition to computing the monthly earnings, an interest receivable account must be maintained in order to assure that the interest distributed agrees with the amount actually collected and that adjustments are made accordingly.

The BOLT system accounts for the type of securities and applies the accounting requirements that otherwise would not be practical or as accurate using a manual spreadsheet calculation method. One example is that proper accounting (under FASB 91) for mortgaged-backed securities (MBS) requires that cash flows for similar pools, that can be reasonably estimated, be taken into consideration to derive the effective yield used to amortize and accrete premiums and discounts.

AIRR 75-04-0595

Box 11 "Bolt Investment Procedure FY98"

In addition, the cash flows are updated monthly and adjustments are made retrospectively for MBS securities, excluding CMO/REMICs. This accounting method would not be practical under a manual method because of the numerous calculations and volumes of data to process. The BOLT system has access to the cash flows for most MBS securities and is programmed to perform the necessary calculations. The system uses the effective yield method (except for variable rate securities) to amortize premiums and accrete discounts which provides for a more accurate return on an investment compared with the straight-line method. The BOLT system also makes more efficient and accurate accounting for the delay-type MBS securities and securities requiring pro-rata computations. The system also automatically updates most variable rate securities.

Beginning September 1997, the BOLT reports replaced the manual spreadsheets formerly used to calculate the monthly investment earnings to distribute for the IM6039716 (IIM) account. The monthly earnings to distribute is submitted in a formal report prepared by investment accounting personnel to the Chief Branch of Individual Indian Money.

The implementation of the BOLT system resulted in a significant decrease in the IIM earnings accrual as compared with the amount calculated on the manual spreadsheet. An analysis has been performed on a spreadsheet that compares of the two approaches (BOLT and the manual spreadsheet). A copy of the analysis is located in the BOLT to OMNI reconciliation for September 1997. The analysis shows that the significant decrease is attributable to the method used to accrete the discount for zero coupon securities (FICO Strips, Treasury Strips, and SLMA zero coupon securities). The manual spreadsheet use the straight-line method and the BOLT system uses the constant (effective) yield method. The constant or effective yield method is the more generally accepted accounting method when there is a material difference between the two methods. The comparison does not include amortization and accretion of market-based discounts and premiums.

A separate reconciliation is being performed that compares the differences in book value and accrued interest between the two systems at the date of implementation (09/30/97). Differences, including the one mentioned above, and adjustments will be addressed once the reconciliation has been completed.

? Please refer to the BOLT user manual and reference manual, located in the Branch of Investment Accounting, for specific details and a through review of the system operating features.

Listed below are the daily processing forms and procedures, reconciliation procedures, and the procedures used for determining the monthly IIM earnings to distribute.

DAILY PROCESSING

Presently, the OMNI accounts being maintained in BOLT include the followings: IM6039716, JA9030690, and AK6140011. The account titles are: Individual Indian Money, Pyramid Lake Fisheries, and Alaska Native Escrow, respectively. The BOLT system uses a six digit customer number which is similar to the OMNITRUST account number. The OMNITRUST account alpha prefix and last digit is not used. BOLT uses the first six digits. E.g. 603971, 903069, and 614001.